INTRODUCTORY STATEMENT

PRESS CONFERENCE

Christine Lagarde, President of the ECB,
Luis de Guindos, Vice-President of the ECB

Frankfurt am Main, 22 April 2021

Jump to the transcript of the questions and answers

Ladies and gentlemen, the Vice-President and I are very pleased to welcome you to our press conference. We will now report on the outcome of the meeting of the Governing Council.

While the recovery in global demand and the sizeable fiscal stimulus are supporting global and euro area activity, the near-term economic outlook remains clouded by uncertainty about the resurgence of the pandemic and the roll-out of vaccination campaigns. Persistently high rates of coronavirus (COVID-19) infection and the associated extension and tightening of containment measures continue to constrain economic activity in the short term. Looking ahead, progress with vaccination campaigns and the envisaged gradual relaxation of containment measures underpin the expectation of a firm rebound in economic activity in the course of 2021. Inflation has picked up over recent months on account of some idiosyncratic and temporary factors and an increase in energy price inflation. At the same time, underlying price pressures remain subdued in the context of significant economic slack and still weak demand.

Preserving favourable financing conditions over the pandemic period remains essential to reduce uncertainty and bolster confidence, thereby underpinning economic activity and safeguarding medium-term price stability. Euro area financing conditions have remained broadly stable recently after the increase in market interest rates earlier in the year, but risks to wider financing conditions remain. Against this background, the Governing Council decided to reconfirm its very accommodative monetary policy stance.

We will keep the key ECB interest rates unchanged. We expect them to remain at their present or lower levels until we have seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2 per cent within our projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.

We will continue to conduct net asset purchases under the pandemic emergency purchase programme (PEPP) with a total envelope of €1,850 billion until at least the end of March 2022 and, in any case, until the Governing Council judges that the coronavirus crisis phase is over. Since the incoming information confirmed the joint assessment of financing conditions and the inflation outlook carried out at the March monetary policy meeting, the Governing Council expects purchases under the PEPP over the current quarter to continue to be conducted at a significantly higher pace than during the first months of the year.

We will purchase flexibly according to market conditions and with a view to preventing a tightening of financing conditions that is inconsistent with countering the downward impact of the pandemic on the projected path of inflation. In addition, the flexibility of purchases over time, across asset classes and among jurisdictions will continue to support the smooth transmission of monetary policy. If favourable financing conditions can be maintained with asset purchase flows that do not exhaust the envelope over the net purchase horizon of the PEPP, the envelope need not be used in full. Equally, the envelope can be recalibrated if required to maintain favourable financing conditions to help counter the negative pandemic shock to the path of inflation.

We will continue to reinvest the principal payments from maturing securities purchased under the PEPP until at least the end of 2023. In any case, the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance.

Net purchases under our asset purchase programme (APP) will continue at a monthly pace of €20 billion. We continue to expect monthly net asset purchases under the APP to run for as long as necessary to reinforce the accommodative impact of our policy rates, and to end shortly before we start raising the key ECB interest rates.

We also intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when we start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Finally, we will continue to provide ample liquidity through our refinancing operations. In particular, the latest operation in the third series of targeted longer-term refinancing operations (TLTRO III) has registered a high take-up of funds. The funding obtained through TLTRO III plays a crucial role in supporting bank lending to firms and households.

These measures help to preserve favourable financing conditions for all sectors of the economy and thereby underpin economic activity and safeguard medium-term price stability. We will also continue to monitor developments in the exchange rate with regard to their possible implications for the medium-term inflation outlook. We stand ready to adjust all of our instruments, as appropriate, to ensure that inflation moves towards our aim in a sustained manner, in line with our commitment to symmetry.

Let me now explain our assessment in greater detail, starting with the **economic analysis**. Euro area real GDP declined by 0.7 per cent in the fourth quarter of 2020 to stand 4.9 per cent below its pre-pandemic level one year earlier. Incoming economic data, surveys and high-frequency indicators suggest that economic activity may have contracted again in the first quarter of this year, but point to a resumption of growth in the second quarter.

Business surveys indicate that the manufacturing sector continues to recover, supported by solid global demand. At the same time, restrictions on mobility and social interaction still limit activity in the services sector, although there are signs of a bottoming-out. Fiscal policy measures continue to support households and firms, but consumers remain cautious in view of the pandemic and its impact on employment and earnings. Despite weaker corporate balance sheets and elevated uncertainty about the economic outlook, business investment has shown resilience.

Looking ahead, the progress with vaccination campaigns, which should allow for a gradual relaxation of containment measures, should pave the way for a firm rebound in economic activity in the course of 2021. Over the medium term the recovery of the euro area economy is expected to be driven by a recovery in domestic and global demand, supported by favourable financing conditions and fiscal stimulus.

Overall, while the risks surrounding the euro area growth outlook over the near term continue to be on the downside, medium-term risks remain more balanced. On the one hand, better prospects for global demand – bolstered by the sizeable fiscal stimulus – and the progress with vaccination campaigns are encouraging. On the other hand, the ongoing pandemic, including the spread of virus mutations, and its implications for economic and financial conditions continue to be sources of downside risk.

Euro area annual inflation increased to 1.3% in March 2021, from 0.9% in February, on account of a strong increase in energy price inflation that reflected both a sizeable upward base effect and a month-on-month increase. This increase more than offset decreases in food price inflation and in HICP inflation excluding energy and food. Headline inflation is likely to increase further in the coming months, but some volatility is expected throughout the year reflecting the changing dynamics of idiosyncratic and temporary factors. These factors can be expected to fade out of annual inflation rates early next year. Underlying price pressures are expected to increase somewhat this year, owing to short-term supply constraints and the recovery in domestic demand, although they remain subdued overall, in part reflecting low wage pressures, in the context of economic slack, and the appreciation of the euro exchange rate. Once the impact of the pandemic fades, the unwinding of the high level of slack, supported by accommodative fiscal and monetary policies, will contribute to a gradual increase in inflation over the medium term. Survey-based measures and market-based indicators of longer-term inflation expectations remain at subdued levels, although market-based indicators have continued their gradual increase.

Turning to the **monetary analysis**, the annual growth rate of broad money (M3) stood at 12.3 per cent in February 2021, after 12.5 per cent in January. Strong money growth continued to be supported by the ongoing asset purchases by the Eurosystem, as the largest source of money creation. The narrow monetary aggregate M1 has remained the main contributor to broad money growth, consistent with a still heightened preference for liquidity in the money-holding sector and a low opportunity cost of holding the most liquid forms of money.

Overall, lending to the private sector remained broadly unchanged. The monthly lending flow to non-financial corporations showed a modest pick-up in February compared with the previous month. This was also reflected in a slightly higher annual growth rate of 7.1 per cent, after 6.9 per cent in January. Monthly lending flows to households continued to be solid with the annual growth rate of loans to households remaining unchanged at 3.0 per cent in February. The latest euro area bank lending survey for the first quarter of 2021 reports a moderate tightening of credit standards for loans to firms, following more significant tightening in the previous two quarters. Heightened risk perceptions among banks were again the main contributor to the tightening, although their impact was less pronounced than in previous survey rounds. Surveyed banks also reported a renewed fall in demand for loans to firms, mainly driven by a continued decline in demand for financing for fixed investment. With regard to lending to households, the survey indicated lower demand for loans for house purchase, while the credit standards for these loans eased slightly, supported by competition among lenders.

Overall, our policy measures, together with the measures adopted by national governments and other European institutions, remain essential to support bank lending conditions and access to financing, in particular for those most affected by the pandemic.

To sum up, a **cross-check** of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is necessary to support economic activity and the robust convergence of inflation to levels that are below, but close to, 2 per cent over the medium term.

Regarding **fiscal policies**, an ambitious and coordinated fiscal stance remains crucial, as premature withdrawal of fiscal support would risk delaying the recovery and amplifying the longer-term scarring effects. National fiscal policies should thus continue to provide critical and timely support to the firms and households most exposed to the ongoing pandemic and the associated containment measures. At the same time, fiscal measures taken in response to the pandemic emergency should, as much as possible, remain temporary and targeted in nature to address vulnerabilities effectively and to support a swift recovery of the euro area economy. The three safety nets endorsed by the European Council for workers, businesses and governments provide important funding support.

The Governing Council reiterates the key role of the Next Generation EU package and the urgency of it becoming operational without delay. It calls on Member States to ensure a timely ratification of the Own Resources Decision, to finalise their recovery and resilience plans promptly and to deploy the funds for productive public spending, accompanied by productivity-enhancing **structural policies**. This would allow the Next Generation EU programme to contribute to a faster, stronger and more uniform recovery and would increase economic resilience and the growth potential of Member States' economies, thereby supporting the effectiveness of monetary policy in the euro area. Such structural policies are particularly important in improving economic structures and institutions and in accelerating the green and digital transitions.

We are now ready to take your questions.

* * *

Two questions, if I may. Firstly I'd be interested to hear whether you think the outlook is improving sufficiently as your colleagues, Mr Knot and Mr Holzmann, have suggested to consider slowing the pace of PEPP purchases from the third quarter of this year, and whether this was something that was discussed at today's meeting.

Secondly, I'd be interested to know whether the move higher in the euro in the last couple of weeks to levels above 1.20 was also raised in the meeting in the context of wanting to prevent a premature tightening of financial conditions.

Lagarde: Well, thank you very much for your question, really it gives me a chance to go back to the key part of our deliberations, which has to do with really taking a good look at the economic situation both from a growth perspective, from an inflation perspective, from the financing terms that are available in the context of forming our joint assessment. In terms of outlook, it's very much a "on the one hand, on the other hand" situation because there are clearly signs of improvement that are coming from essentially an improvement in the rollout of the vaccination plans in most euro area countries. That's on the one hand. On the other hand, we are clearly seeing continued contagion, continued pressure put upon some of the economic sectors as well as the health sectors. Equally, also on the more negative side, we are seeing the risk of the potential evolution of the virus, variants that can constitute a threat. We still have this overall environment of uncertainty about the economic situations that really surrounds the near-term outlook.

I think it is very much reflected in the consumers’ behaviour because when you look at the retail sales for instance, they rose in February but they remain certainly well below the pre-pandemic level and well below the fourth quarter of 2020. That's an indication of consumer confidence. On the other hand, you have now a service sector that seems to be bottoming out, which is still in contractionary territory. The PMI on services is, if I recall, at 49.6, so short of the 50, but heading in the right direction and let's not forget that this was the sector that was most affected by the economic recession. It's very much as I said, on the one hand, on the other hand. That's for the economic outlook. If we look now at the risk assessment that we always conduct as well, we still have the same risk assessment as we had back in March. We still see near-term risks tilted to the downside and we still see medium-term risks much more balanced.

Overall everything that we have looked at in terms of high-frequency indicators, latest information, data, surveys, really confirm the projection that we had back in March. That's on all accounts and in terms of inflation numbers we are also on the same page as we were with our projections back in March. We conduct our joint assessment against that background.

Now, you asked me a second question, which had to do with the appreciation of the euro. We do not target any kind of exchange rate, but we monitor very carefully exchange rates and variations because, clearly, that can have a downside impact on prices. We are very attentive to that.

I have two questions. The first question is again on the PEPP purchases; the Governing Council as you said expects over the current quarter PEPP purchases to continue to be conducted at a significantly higher pace during the first quarter of this year. The question is: what is your assessment of this decision so far? That is, are financial conditions at the moment as favourable as the Governing Council would like them to be?

My second question is on the possible link between the NextGenerationEU and monetary policy. As you mentioned there, the Governing Council has reiterated the key role of the NextGenerationEU, and the importance of coming without delay. So can we assume that a long delay of NextGenerationEU or a premature fiscal tightening by EU members could lead to longer ample accommodation by the ECB?

Lagarde: I'll take your second question first because really it's a case of everybody having to do their job and everybody having to comply with their respective mandate. Our mandate is price stability and we are riveted to the aim that we have under the circumstances. So NextGenerationEU is clearly in the fiscal domain, as are some national decisions that have been made, that are being made. Fiscal authorities have to do what they have to do. We certainly complete each other, complement each other, but we are not substitutes. If there was delay or any hurdles that would not be overcome, it's not a question of substituting because we are complementing each other, each of us in our respective area and with our respective mandate.

On the PEPP purchases, you did pick up that in the Introductory Statement we decided to keep the pace of purchase at a significantly higher pace. I just want to remind you that when we do that, it's with a view to preserving favourable financing conditions. Back in March we observed the financing conditions. We decided that we had to take action and we significantly increased our pace of purchase. That was clearly the case. That decision was made on the [11] March and was readily implemented not for the entire month – which is really the relevant period of time when you want to assess the pace of purchase. We implemented right away as of the 16 March [on settlement basis], and we have continued doing so without any wavering, and in a very determined and decisive way. There has been a clear and significant increase in that pace of purchase and it will continue to be that way because as I said earlier on, our assessment of the economic situation is broadly the same. The joint assessment that we do on – I was going to say, on an intermediate basis as opposed to the comprehensive assessment that we conduct at the time of the projections – also lead us to believe that we need to continue those purchases at this significantly higher pace than during the first two months of 2021.

First of all, I just wanted to follow up on one of the previous questions about a gradual phasing out of PEPP purchases in the third quarter. I'd like to know what the ECB would need to see in order for it to return to its normal pace of purchases. Would this be a confirmation of the economic outlook that you saw in March, as your colleague Klaas Knot suggested in a recent interview? Or would you need to see an upward revision to your forecasts or an end to restrictions? What can you tell us about that?

Second of all, in terms of financing conditions – which you were just speaking about – your bank lending survey this week showed that banks expect to tighten credit standards even further in the current quarter after they've already done that in the past three quarters. Is that a worrying sign, in your assessment, and what is the ECB doing about that?

Lagarde: On the first one: let me just assure you that on the occasion of this Governing Council we did not discuss any phasing out of PEPP because it is simply premature. I would also observe that any determination concerning the pace of purchase under the PEPP is done not on a date or a calendar basis. It is data dependent. We have pledged to preserve favourable financing conditions. We conduct a joint assessment of those financing conditions throughout the whole spectrum, and the inflation outlook. It's the combination of the two – the financing conditions and the inflation outlook, it's on the basis of these two elements, which are quite complicated in their own respect, each of them – that we determine the pace of purchase. That's what we have done this time around on an intermediate basis. We will do it again in June, when we have the projections, but any phasing out was not discussed and it is just premature.

On the bank lending survey, I would just remind you that – and I think it's mentioned very clearly in the Introductory Statement – that loan volumes have actually slightly increased over the last quarter. That is for the non-financial corporate sector. It has remained roughly the same for the households. That's of course backward-looking. The BLS is also forward-looking and translates really the sentiment and the views of banks as to their future activity. This BLS, as far as the sentiment about their future activity, indicates two things. One is, there is moderate tightening as opposed to much stronger tightening in the two previous surveys, so while it is still tightening, that tightening is moderate. Second, there is the view by banks for their future activity that there will be less demand originating from the non-financial corporate sector on the grounds of less need for investment and capex in particular. That's what we are taking away from the BLS.

The third point that we take away as well, and that's what banks are actually saying, is that TLTROs, TLTRO III in particular of course – PELTROs to a certain extent for some banks – are playing a critically important role in helping with their lending operations. The recent take-up that we have seen back in March of the latest TLTRO operations is evidence of the fact that banks are drawing benefits from those TLTROs, under the condition, I'll remind you, that they continue to extend lending to the economy at least on par with what they were doing pre-pandemic.

You said the main goal of PEPP is to keep financing conditions favourable. Are you happy with the current level of bond yields, nominal and real?

The second question is about PEPP again. You often accompany your weekly data with warnings that redemptions affect the numbers. Can you tell us more about how redemptions affect your ability to buy more bonds? Is it that you're struggling to find enough bonds to buy certain jurisdictions or maturities? Can you tell us more about that?

Lagarde: One thing that you got absolutely right – and it's probably because I have repeated it extensively – is that our pledge is to preserve favourable financing conditions. As a result of that, back in March we significantly increased the pace of purchase and we have decided today to continue to proceed at this significantly higher pace of purchase relative to the first two months of 2021. When we look at the financing conditions throughout the chain, from upstream to downstream, we are seeing broadly stable financing terms. That's pretty much reflected in all the measurements that we are looking at. We don't only look at bond yields whether they are real or nominal. Of course we do the difference and we draw the line between what's real and what's nominal. And we try to understand what is the originating factor of any movement up or down. We are seeing broadly stable conditions overall, whether it's bond yields or whether it is corporate or household interest rates and terms and conditions.

Now, your question about the weekly numbers: I would like to once again draw your attention to the fact that weekly numbers are not the most relevant numbers. I know that some of you will continue commenting on weekly numbers. Fine, but what matters much more are the monthly numbers, and that's how you can really understand the trend and the pace that we are adopting. I don't want to encourage any of you to do the maths, but we do them as well. When we compare what has been purchased on average, taking into account January and February, compared with what we did in March – which was only half a month, remember, because we only started [with settlement] on 16 March – we have significantly increased the pace of purchase. We are back pretty much to the numbers that we had back in July. As I said, we have decided this time around to continue at this significantly increased pace of purchase.

We also look at net purchases; those are the numbers that we publish and that are most relevant. Now, obviously there is the composition within those numbers and you have to appreciate obviously redemptions and arrive at the right comparisons, but trust me, those comparisons indicate a good significant increase in our pace of purchase – and will continue to do so.

The phasing out of purchases was not discussed today, while we had the Central Bank of Canada announce by surprise yesterday that it would reduce from Monday – not in several months but from Monday – its purchases for sovereign bonds because of the progress of the

recovery. Was this element even brought up by members of the Governing Council today in the discussion, as an example to follow in the near future?

Allow me a second question to you as feminist, board woman and climate protection enthusiast that you are: you were suddenly fully busy this week with the preparation of this meeting but you couldn't have missed that a woman in her early 40s, from the German Environmental Party and former trampoline champion, with no experience in governing issues, but she was nominated for the political race to succeed Ms Merkel later this year. This means that Ms Baerbock, to name her, could therefore potentially be the leader of the largest European economy. What is your take on this kind of news?

Lagarde: On the phasing out and the transition question that you had: as I said, this matter was not discussed because it is premature. We still have a long way to go until we have crossed the bridge of the pandemic and the recovery is sustainable, solid. I've referred to an economy on crutches; one fiscal crutch, one monetary crutch. I do believe that this image speaks for itself. The economies of the euro area have to go across the bridge of the pandemic and have to be on solid and sustainable ground in order to walk on a self-sustained basis. Now, obviously we look at what other central banks around the world do on a regular basis. All banks, including Canada, Japan, the Fed, the Bank of England, all of them because we are close-knit and we appreciate what is being done and why. Each and every country has its own specificity and its own accompanying measures that complement their monetary policy. I'm referring here to fiscal plans that can be significant.

On your second question: the first conclusion I draw is that competitive sports in all categories, whether it is synchronised swimming to trampoline, can actually equip you with a little spirit of competition, hard skin and the desire to excel in your sports – but also in politics, if one desires to go into politics. This clearly seems to be the case with Ms Baerbock. The second lesson I would draw is that you don't need to be a seasoned grey-haired or white-haired person to enter into politics and be recognised for your own talent. I very much welcome an athlete, a young woman and certainly one who has a very high concern for climate issues and protection of the environment, which as you know on a personal basis I care for.

I would add another point, actually. It also shows that Chancellor Merkel has not discouraged younger women to enter into politics. That's a very high tribute to a woman who has led this country where we are currently – Germany – for 16 years. It's the value of role models.

The first question is on the outlook: you've said that all the information that you processed was very much in line with the assessment you had back in March. Does that mean that it still fully supports your forecast for a second quarter growth rate in the eurozone of 1.3%?

Secondly: what would it take for the ECB to decide to return to the normal pace of PEPP purchases in the third quarter in June, when you publish new economic forecasts?

Lagarde: You rightly pointed out that our intermediate assessment and our review of existing data, information, high-frequency numbers and all the rest actually confirms our projection of March. Obviously I'm not going to give you any specific number concerning a particular quarter because that will be done when we publish our projection next June. Overall, what staff of the ECB are saying is that their projections are very much confirming – or rather the current economic situation and the outlook as we see it at the moment are confirming – the direction of the projections, as published in March. They also confirm that while the first quarter might – we are very attentive – but might very well be negative, on the other hand the second quarter is pointing to a positive outcome.

Now, your second question puzzles me a little bit because I don't know what is the normal pace of purchase of PEPP. We decided in December to no longer be operating on the basis of a linear volume, but we decided to commit to preserving favourable financing conditions. That is a determination that we made in December, that we demonstrated in March, that we observe now, and that will guide our assessment – a joint assessment, comprehensive this time – next June. So there is no normal pace of purchase. There is a commitment that has been made. There is a joint assessment that we are bound to make either at an intermediate level when we don't have the projections, or on a comprehensive basis when we have the projections, to actually jointly assess favourable financing conditions throughout the supply chain of financing, and the inflation outlook, and the impact that one has over the other with a view to returning to the pre-pandemic inflation path, which is clearly going way, or some way, into the inflation aim that we have, which as you know is close to but below 2%.

I have a question on the slack in the economy. We've been hearing from the Bank of Canada that they are quite optimistic that by the second half of 2022, the slack will be absorbed. Are there any estimates also for the eurozone?

Then I'll try my luck again with a question on what you think would be appropriate in terms of moving in tandem or not when it comes to tapering. I think the market view is that the ECB could not act before the Fed, so they would have to wait when it comes to any exit scenario. What's your view?

Lagarde: Don't take me literally, but it would be nice to move in tandem with the Fed because that would mean that our inflation numbers are aligned. Now, clearly Fed has a dual mandate, 2%, with employment. We are close to but below 2%, but if you look at where the Fed is, where we are, when you look at expectations in the United States and expectations in the euro area, we are not on the same page. It would clearly predicate that we will not operate in tandem with the Fed. I think that's very much a given and it's not me looking into a crystal ball; it's where we are. It's pretty obvious.

Slack in the economy, our assessment at this point in time is that we will – the euro area economies will return on average to the pre-pandemic economic level in the second half of 2022. I'm taking precautions here because when I say on average, there will be divergences. There will be heterogeneity. There will be countries that will be lagging behind because of multiple factors, but on average we are seeing the euro area economy back to pre-pandemic level, second half of 2022. It doesn’t mean that all slack will have been absorbed because my take is that entering into the pandemic, there was some slack. My hope as well is that there will be as many jobs, newly created, and that the ECB will contribute to such developments by delivering price stability as our mandate so requires.

A question on negative interest rates, if you please: here in Germany we see an increasing number of banks passing on costs of negative interest rates to private customers. Especially even on deposits of €25,000 or lower. Do you understand that this upsets people? Could you please explain once more why negative interest rates are necessary?

Lagarde: Well, as you know, interest rates are the traditional tool of monetary policy and based on our experience, the negative interest rates are continuing to be an effective tool for providing monetary policy accommodation. I think we have clear evidence that cutting rates below zero provides additional stimulus to the euro area economy, as rate cuts are passed through the bank lending rates, and overall financing conditions of firms and households. Now, in the whole of the euro area negative rates are passed on to corporates, to a large extent. Not all banks do that, but many banks do that in the euro area. As far as households are concerned, it's 5% of deposit accounts of households that are imposed negative rate consequences by banks. It's higher than that in Germany. It's double that amount, so based on our numbers, based on the data provided by banks, it's 10% of those deposit accounts.

I completely appreciate that people who are saving are not satisfied with being charged the consequences of negative rates. But we have to look at the situation from a global point of view. We cannot look at a particular depositor or a particular category. We have to look at the whole economy, and we know that by putting in place those negative interest rates we are effectively supporting the economy. We are encouraging enterprises, families, households, young couples to actually borrow at very low rates in order to invest, in order to buy their first apartment, in order to buy some equipment. The contribution that that is, in order to support the economy, in order to make sure that jobs are kept, in order to make sure that corporates can continue to operate and produce, is clearly a trade-off against some aspects that are resented by those that are only savers, and are not borrowers. In every household you have savers and you have borrowers, so there is always a trade-off. We have to look at the aggregate euro area economy ourselves and deliver on our mandate.

I'll ask a question on the strategy review: could you give us a better idea of the timing when you can actually share your results with us? Has the Governing Council seriously discussed any other options beyond the more symmetric target and dropping the monetary pillar?

Lagarde: Thank you for asking your question on a project that keeps many, many of our very talented staff busy at the ECB, but also in the National Central Banks. That's really a project where everyone is involved and everybody is contributing. We are well into the second half of our strategy review. We have already covered a lot of ground. We still have more work to do and more seminars that are planned in the weeks ahead. My commitment is that we will deliver on our strategy in the fall of '21. If we manage to conclude our set of seminars and to conclude our deliberation to arrive at this new strategy before that, then of course we will come to you and to Europeans and to the European Parliament and to all those that we are accountable to earlier than that. The fall of '21 is clearly the deadline that we have set for ourselves in order to deliver on the strategy and its outcome.

We are looking at multiple options, proposals, views, recommendations and we are not yet landing in any particular zone that will be the ultimate conclusion because we need to keep all options open. This is a commitment that I have made to the Governing Council members as I am leading this exercise. I promise that we will not deliver until everything has been examined and conclusions have been reached. There are many proposals around. Some more attractive, others more alternative, but we'll get there when we get there.

I would like to know your opinion about the pushback that any sort of explicit yield curve control seems to get from several members of the Governing Council. Is that strategy

completely off the table, and would that be something worth discussing as the Governor of the Banco de España suggested recently?

Lagarde: As I just indicated in the previous response, we are looking at multiple options, multiple proposals as far as our strategy review is concerned. That's a track in and of its own. Now, we also have our business-as-usual track of business, which consists of deciding monetary policy every six weeks. On that particular track, we are guided by the decision that was made in December, which is not yield curve control, but the commitment to preserving favourable financing conditions. I know it's a little bit more subtle, it's a bit more complicated. It requires that we analyse the financing terms that are available from risk-free rates all the way down to terms and rates available for corporates and households, and the inflation outlook and the impact that one has over the other. It's more complicated than having just a yield definition that we would just abide by, but this is not the choice that was made. We are loyal to the decision that was made in December, applied in March, reiterated in April and that we will also take into account to calibrate our monetary policy decision in June.

I had a question about tourism, which is a significant part of the economy in Southern Europe especially. How much is the season this year going to be saved, and how much of that is a problem for your forecasts for the eurozone economy if tourism in Southern Europe does quite badly.

The second question was on government debt and there's a debate among economists about how much debt governments can safely hold. In the US they seem to be thinking the government could support a lot more government debt. Do you think that European Governments can safely have a lot more debt in the future, so significantly above the 60% Maastricht target, for instance?

Lagarde: On tourism, I think we are both well placed to address the question. Do you want to take it, the one on tourism? Spain is clearly one of the countries that has fantastic tourism.

de Guindos: Well, I think that is going to depend on the evolution of the vaccination process. If the vaccination rollout gains momentum – and we expect that this is going to gain momentum – well, we hope that a high percentage of the population will be vaccinated and that this is a positive sign, a positive indication that perhaps the summer season will not be totally lost, as it was in 2020. Vaccination is going to be the driver, in my view.

Lagarde: Yes, and I think in quite a few of those countries we are seeing a gradual acceleration of the vaccination base and that's really much in demand for those economies that are particularly sensitive to the social distancing rules, as tourism can be.

On the debt question: all countries around the world, and the euro area countries are no exception, but all countries around the world had to increase their debt because they had to respond to the worst possible crisis that the economies had had in post-World War times. There was just no question as to whether or not the 60% threshold should or should not be exceeded and whether you were below the 60 or way above the 60, debt had to be increased, full stop. The real question is: what use is made of debt now going forward? Clearly the use of debt in the first few months of the pandemic had to do with keeping the economy afloat, making sure that businesses were not going down the tube, making sure that people were not left without income. The real question now is: what use is made of debt? Is the public spending targeted and temporary in order to cross the bridge of the pandemic, as I have indicated earlier in the first instance? Second, is this public financing going to be spent on productivity-enhancing reforms that will actually improve the growth potential of those economies?

If that is the case and financing terms remain attractive relative to the growth that can be developed as a result of those targeted temporary measures and productivity-enhancing measures, then this is debt put to good use. I think that has been described much more so by fiscal authorities and governments than by me. Clearly, this is a matter that will be reviewed by the European Commission, by the European Council members in order to redefine the terms of the Stability and Growth Pact . But this is a matter which is not for the European Central Bank to decide.

CONTACT

European Central Bank

Directorate General Communications

- Sonnemannstrasse 20
- 60314 Frankfurt am Main, Germany
- +49 69 1344 7455
- media@ecb.europa.eu

Media contacts